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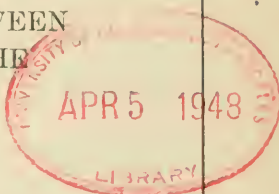
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CONFIDENTIAL

LETTER AND STATEMENT

FROM THE SECRETARY OF STATE IN RELATION TO THE CONVENTION BETWEEN THE UNITED STATES AND THE REPUBLIC OF NICARAGUA
(EX. B, 62D, 1ST)



CONCERNING A LOAN WHICH THE REPUBLIC CONTEMPLATES MAKING WITH CITIZENS OF THE UNITED STATES



PRINTED FOR THE USE OF THE SENATE COMMITTEE
ON FOREIGN RELATIONS



WASHINGTON

1911



THE NICARAGUAN LOAN.

JUNE 17, 1911.

HON. SHELBY M. CULLOM,
United States Senate.

DEAR SENATOR CULLOM: In compliance with your request, I take pleasure in inclosing a copy of the remarks I intended to make when called upon by your committee for information upon the Nicaragua convention.

As you know, the President is intensely interested in the Nicaragua and Honduras conventions, because (1) they are a practical measure of peace; (2) they are of vast commercial advantage, especially to the Southern States; (3) because, so far from involving entanglements, they will greatly reduce actual interference in Central American affairs; (4) because they make American diplomacy and American capital helpful to neighboring Republics to which our friendliness is peculiarly due; (5) because they lay the foundations for peace in the neighborhood of the Panama Canal, where constant turbulence is especially intolerable. I will not tire you with further citations of the cogent reasons for this policy.

We feel that the policy is so clearly right that it needs only to be understood to carry conviction to an impartial mind. Information is what is most needed, and I therefore request that you will be good enough to have printed copies of all the materials presented to your committee regarding the Honduras convention furnished to all the Senators, and will do the same at the earliest practicable moment with all the materials bearing on the Nicaragua convention, so that the Senators may have opportunity to know the facts as to two conventions which are of equal importance and identical in principle, and therefore lend themselves to deliberation as one general subject.

I am, my dear Senator, always, with the kindest regards,

Yours, very sincerely,

J. P. C. KNOX.

Nicaragua, the largest of all the Central American Republics, like Honduras, stretches completely across the isthmus of Central America from the Caribbean to the Pacific. Its area is 50,000 square miles, approximately, being thus a little larger than either Louisiana or New York, and a little smaller than Alabama or North Carolina; and has a population of somewhere in the neighborhood of 600,000. In the interior and nearer the Pacific side are the two large lakes of Nicaragua and Managua, which are navigable, and thus afford, together with the San Juan River, the only means of communication from the capital to the Caribbean. The topography of the country is very advantageous for the development of its natural resources and of commerce. The

Atlantic coast ports give it easy access to New Orleans and other Gulf cities, and the Pacific ports are available for all large steamers plying between San Francisco and Panama. In the entire country there are not more than 190 miles of railway, and this, with some docks at Corinto, constitutes approximately all the Nicaraguan public improvements. The railroad runs from Corinto, the Pacific port, to Managua, the capital, and thence to Granada, the largest city. The central portion of the Republic is mountainous and suitable for the coffee culture, which is one of the chief industries. The eastern slope is composed of a great wilderness, intersected by four large navigable rivers emptying into the Caribbean—the San Juan, the Bluefields, the Rio Grande, and the Wanks or Coco, which latter forms the boundary with Honduras. The Bluefields River is navigable as far as the town of Rama—that is, about 59 miles—for large seagoing vessels, the channel being narrow, but with a depth of water of from 35 to 50 feet. The same would be true of the Rio Grande if the bar at the mouth thereof were removed, and navigation in that case could be extended for some 80 miles up the river. The banks of the rivers of the eastern slope are fertile and are considered by some experts as probably the best banana lands in any of the Republics bordering on the Caribbean.

Besides bananas and other tropical fruits, the principal products of Nicaragua are coffee, sugar, cacao, tobacco, rubber, cattle, silver and gold. The coffee is of fine quality and the area capable of producing it can be very largely increased. The mineral resources while undoubtedly valuable, have never been systematically and thoroughly exploited, although the districts of Prinzapolka and Pispis are receiving some attention from American investors. An estimate of the gold exports from Nicaragua for 1908 fixes the total as being somewhat less than \$1,000,000. In the cooler and mountainous regions there are vast forests of fine yellow pine and mahogany, and other tropical woods are abundant and not difficult of access. The lands cleared of the timber are especially useful and valuable for agricultural and grazing purposes.

The natural advantages of this region and the geographical and strategic importance of the country were recognized by explorers and surveyors from the United States in the early days of the inter-oceanic canal discussion, and as far back as the Jackson and Van Buren administrations commissions sent out by this Government reported favorably on Nicaragua as a site for the proposed Isthmian Canal.

The eastern portion of Nicaragua is at present without means of communication with the west except by the rivers and lakes, as above mentioned, and even in the dry season no extensive traffic is possible overland. The coffee and sugar crops must therefore go out through the Pacific ports, which are quite remote from the United States. If a railway could be built to take this freight to tidewater on the Atlantic side, it would reach its natural market in the United States some two weeks sooner. It is now proposed to construct a railway from the port of Rama overland, going via La Libertad and Boaco to a place called Sabana Grande, to connect with the road running to the Pacific. This proposed railway would have a branch running from Boaco to Matagalpa, which is now the center of the coffee and cattle district. The cost of building this road is one of the objects to be provided for in the loan which Nicaragua is now seeking to make.

In October, 1909, a revolution broke out in the eastern section of Nicaragua, headed by Gen. Juan J. Estrada. On the 1st day of December, conditions in that country having become intolerable and the de facto control of the eastern and western sections, representing each about one-half of the total area of the Republic, having become vested in the leaders of the two factions, this Government found itself under the necessity of so declaring and suspended diplomatic relations with Nicaragua, the chargé d'affaires being given his passports on that day. Gen. Zelaya escaped from the country December 24, 1909, on board a Mexican war vessel.

The revolution progressed with varying success until in the month of September, 1910, the capital of the country fell into the hands of Gen. Estrada, and Dr. Jose Madriz, who had succeeded Gen. Zelaya, fled the country, and the control of the entire Republic fell to Gen. Estrada. On the 10th day of September, 1910, the representative of the revolutionary faction at Washington called at the Department of State and exhibited a telegram from Gen. Estrada stating that among other objects his administration would endeavor to accomplish the refundment of the national debt, to effect which it intended to ask the aid of the American Government to obtain a loan in the United States. On September 14, 1910, Estrada's representative was informed that this Government received the communication of his Government with great satisfaction. Subsequently a special commissioner was sent to Managua at the request of the Estrada government, and further proposals looking to the enlistment of the aid of the United States were made. On October 27 an agreement was signed by the four leaders at Managua representing all political factions to rehabilitate the public finances, to pay legitimate claims, foreign and domestic, and to solicit for this purpose the good offices of the United States for the purpose of negotiating a loan to be guaranteed by a certain percentage of the customs receipts of the Republic, collected in accordance with the terms of an agreement satisfactory to both Governments. In accordance with these overtures from Nicaragua to the United States, Ernest H. Wands, an American citizen, was, with the approval of the department, appointed by the Government of Gen. Estrada as Nicaragua's financial adviser, and he has since then visited that country in order to make a complete examination of its monetary needs and to gather the data necessary for the negotiation of the proposed loan. An important part of said data is the determination of the probable amount of claims existing against the Government of Nicaragua and which will eventually be submitted for hearing and adjustment to a claims commission consisting of an American umpire, nominated by the United States, and two commissioners, one an American, the other a Nicaraguan, both selected by the Government at Managua, the foreign representation on the said commission being an evidence of the good faith of Nicaragua in desiring to reach an equitable settlement of these outstanding claims.

On January 1, 1911, Gen. Estrada was elected by the constituent assembly President of Nicaragua for the provisional term of two years, and diplomatic relations were on that day resumed with Nicaragua. On January 25 the Nicaraguan minister at Washington, acting under instructions from his Government, called at the department and requested to be furnished with the bases of a convention with which

some measure of security might be given to the loan. From that time forward the negotiations proceeded, and upon the change of the presidency in Nicaragua, renewed telegraphic instructions were sent to the Nicaraguan envoy here to proceed with the negotiations, which terminated on June 6, 1910, when the convention was signed which is now before the committee, and which *mutatis mutandis* is practically identical with that concluded with Honduras for a similar purpose, which was reported favorably on the 9th instant.

The dishonesty and corruption of the Zelaya administration left their effect upon the currency system of the country, which is indeed in a lamentable condition. The rate of exchange of the Nicaraguan peso to the American dollar has fluctuated in the past 10 years from 295 in January, 1901, to 1,400 in August, 1910, and averaged in 1910 approximately 1,150; that is to say, in 1901, 295 Nicaraguan pesos were equivalent to \$100 American, and in August, 1910, \$100 American would buy 1,400 Nicaraguan pesos. Under these circumstances small wonder need be expressed that commerce in Nicaragua has been stagnated, as merchants refuse to take the risk of being obliged to pay in American gold to-day for what they may have to sell at a loss for Nicaraguan pesos to-morrow.

The total outstanding foreign bonded indebtedness of Nicaragua is represented by the loan of 1909 for £1,250,000, equivalent in American money at \$4.86 to \$6,075,000. Of this there is a balance on deposit in London intended under the original loan contract for use in building a railway from the Atlantic to Lake Nicaragua of £389,375, equivalent to \$1,892,362.50, so that the total outstanding liabilities of Nicaragua on this loan are represented by approximately \$4,200,000. Besides this, Nicaragua owes for liquidated external loans and claims some \$750,000. Approximately \$1,200,000 will be necessary to liquidate the internal indebtedness, and it is proposed to provide a fund of about \$4,000,000 for the purpose of meeting the claims arising out of the recent civil war and the award of the commission established for the purpose of settling all descriptions of unliquidated claims against the Government of Nicaragua. The financial expert has estimated that in order to reform the currency and to put it upon a sound and stable basis so as to prevent fluctuation an additional sum of \$1,500,000 will be necessary. For the purpose of constructing the railroad it is proposed to provide a fund by means of the loan, \$500,000 of which might be spent in the first year, and it has also been planned to provide a general fund of \$250,000 to meet any discrepancies in the foregoing items or for exigencies unforeseen. This brings the total of Nicaragua's immediate needs to \$12,400,000. To meet this it is proposed to negotiate a loan, according as may be found necessary, of from \$12,000,000 to \$15,000,000, with American bankers, secured by the customs revenues of Nicaragua. The convention recently signed by this Government and Nicaragua for this purpose follows the general plan of the convention with Honduras, already favorably reported by your committee to the Senate.

However, it is to be observed that in the present case the terms and the conditions of the loan have not as yet been decided upon, but only that the contract when drawn in a form satisfactory to Nicaragua and to the lenders shall be submitted for approval to the Government of the United States before final execution. It is proposed to have the contract thus drawn submitted to a financial and legal expert so as

further to safeguard the interests of the borrowers. Mr. Wands, the financial adviser of Nicaragua, is at present in the United States sounding various bankers merely to get tentative bids upon which to base a contract, leaving flexible the price of the bonds and the terms in order that he may solicit proposals and determine the best and most advantageous bid. He has already had inquiries from bankers in Ohio and Philadelphia, as well as from many New York firms, so that the actual negotiation of the loan is left entirely open. The reason for the somewhat different course in the case of Honduras was that the approximate amount of the outstanding indebtedness, including liability for claims, had already been ascertained, and the Morgan firm of bankers had already secured an option on about three-fourths of the bonds held by the council of foreign bondholders before the department had entered on its policy of assisting the Central American Republics to rehabilitate their finances. In the present instance the financial adviser of Nicaragua and the claims commissioners had not as yet acquired sufficient data on which to base an estimate of the probable amount of claims and indebtedness.

The convention provides that the loan shall be placed in the United States; that both Governments will take due note of the provisions of the contract covering the loan; that it shall be secured by the customs of Nicaragua; that Nicaragua shall not alter these customs during the life of the loan without the consent of the United States Government; that the customs shall be collected and administered by a collector general, who shall be appointed by the Government of Nicaragua from a list of names submitted by the fiscal agent of the loan and approved by the President of the United States; that Nicaragua will accord to this collector all proper protection in the discharge of his duties, and should circumstances justify the United States Government may also extend him protection. It will thus be seen that the convention is framed for the purpose of covering no particular contract, and its provisions will only be applicable and the collector general only appointed when a contract satisfactory to both Governments has been negotiated.

The advantages thus to be obtained by the Government of Nicaragua can scarcely be overestimated. In the first place, the interest on her foreign debt, now exceeding \$6,000,000, will be reduced from 6 to 5 per cent; (2) the complete discharge of old long-standing internal indebtedness and the prompt discharge of its obligations will be attained; (3) cash will be provided which will be honestly expended in the building of adequate railway facilities from the interior to the Caribbean; (4) the fluctuation of exchange will be no longer possible; (5) the attainment of a permanent public tranquillity and material progress and the abolishment of unnecessary expense in the suppression of revolutions.

Nicaragua's ability to meet the payments on a loan of \$12,000,000, amounting to \$60,000 per month, out of the customs receipts, which form only a portion of the general income of the Government, would seem at once apparent. In 1910 the customs receipts of Nicaragua amounted to about 9,000,000 pesos, or approximately \$850,000, and it must be remembered that during nearly the entire time a revolution was in progress. The last revolution in Nicaragua alone is estimated to have cost in the neighborhood of \$1,500,000. It has been demonstrated as an absolute certainty in Santo Domingo that

tranquillity will be established; that the enormous war expenses now amounting on an average for the last five years to about \$450,000 per annum will be greatly reduced, if not abolished; that under an honest and competent collection and administration of the customs these also will materially increase, and that the commerce of the country will as a result of all these causes be greatly augmented and developed.

The maintenance of peace in Central America is desirable, not only for the humanitarian motive of preventing useless bloodshed and for the political reason of avoiding danger of European entanglement in the affairs of these countries, but may also be justified from a purely material standpoint of commerce. The total foreign trade of the States of Central America, including Panama, amounted in 1909 to about \$60,000,000, of which approximately one-half was with the United States. A comparison of these figures with Mexico's total commerce with the United States of \$117,000,000 will give some idea of the trade possibilities with the Isthmian Republics, especially if it be borne in mind that under the similar arrangement made with the Dominican Republic the total trade with the United States increased from \$4,255,434 in 1903 (prior to the *modus vivendi*) to \$11,400,328 in 1910.

A statement, which is submitted herewith as an appendix, has been prepared in the department showing somewhat in detail the commerce with the Central American countries and the proportion of such commerce, import and export, taken and furnished, respectively, by the United States. The statement further contains carefully compiled data showing the amount of import and export Central American trade of the ports of Key West, Tampa, and Pensacola, Fla.; Mobile, Ala.; Pearl River, Miss.; New Orleans, La.; and Galveston, Tex., all of which, as well as the more northern ports, may be expected to benefit by any expansion of the Caribbean commerce.

APPENDIX.

MEMORANDUM RELATIVE TO THE TRADE OF THE UNITED STATES WITH THE STATES OF CENTRAL AMERICA.

The following table shows the share which the United States enjoyed in 1909 in the import, export, and total trade of each Central American State.

IMPORTS.

Countries.	Total.	From United States.	Percentage share of United States.
Costa Rica.....	\$6,109,938	\$3,360,445	55
Guatemala.....	5,251,317	2,153,033	41
Honduras.....	2,581,553	1,709,877	68
Nicaragua ¹	952,218	472,873	49
Panama ²	8,756,303	4,996,527	57
Salvador.....	4,176,931	1,345,316	32

EXPORTS.

Countries.	Total.	To United States.	Percentage share of United States.
Costa Rica.....	\$8,176,257	\$4,862,254	59
Guatemala.....	10,079,219	2,721,384	27
Honduras.....	1,990,602	1,834,566	92
Nicaragua ¹	1,664,522	577,616	34
Panama ²	1,500,465	1,271,896	84
Salvador.....	5,653,753	1,838,302	32

TOTAL TRADE.

Countries.	Total.	With United States.	Percentage share of United States.
Costa Rica.....	\$14,286,195	\$8,162,699	57
Guatemala.....	15,330,536	4,874,417	31
Honduras.....	4,572,155	3,604,443	79
Nicaragua ¹	2,616,740	1,050,489	40
Panama ²	10,265,773	6,268,523	61
Salvador.....	9,830,684	3,182,618	32

¹ The disturbed condition of Nicaraguan affairs following April, 1909, put an end to all statistical records. The figures given are the first four months of that year only. It is thought, however, that they will serve to show the share of Nicaraguan trade usually enjoyed by the United States.

² Exclusive of Canal Zone.

The foregoing statistics have been taken from Central American sources in order that comparable figures for the total foreign trade of each country and the trade of each with the United States might be obtained. Throughout the remainder of this memorandum statistics published by the United States are used. It should be noted that, whereas the Central American statistics used above do not

include the traffic between the United States and the Panama Canal Zone, the statistics of the United States do. This is a matter of about \$18,500,000 a year. Adding this and allowing for a different statistical period, an approximate figure of \$42,500,000 is secured as representing the total trade between the United States and all Central America in the place of the \$30,000,000 mentioned above.

Of this \$42,500,000 of total trade \$13,000,000, or 25 per cent, was handled through the gulf ports of the United States; \$20,000,000, or 47 per cent, through the port of New York; and \$5,000,000, or 11 per cent, through the port of San Francisco. The following table shows the amount of Central American traffic which passed through each gulf port during the fiscal year 1909-10:

KEY WEST.

	Imports from—	Exports to—	Total.
Honduras.....	\$16,332	\$1,749	\$18,081
Nicaragua.....	13,507	424	13,931
Total.....	29,839	2,173	32,012

MOBILE.

Costa Rica.....	\$370,295	\$25,526	\$395,821
Guatemala.....	65,602	28,537	94,139
Honduras.....	449,730	102,310	552,040
Nicaragua.....	22,525	6,000	28,525
Panama.....	378,506	267,751	646,257
Total.....	1,286,658	430,124	1,716,782

TAMPA.

Honduras.....	\$117,019	\$12,588	\$129,607
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NEW ORLEANS.

Costa Rica.....	\$1,587,856	\$878,816	\$2,466,672
Guatemala.....	178,975	391,859	570,834
Honduras.....	1,072,567	853,410	1,925,977
Nicaragua.....	437,567	889,085	1,326,652
Panama.....	607,849	2,692,299	3,300,148
Total.....	3,884,814	5,705,469	9,590,283

PEARL RIVER, MISS.

Honduras.....		\$2,549	\$2,549
Panama.....		538,003	538,003
Total.....		540,552	540,552

PENSACOLA.

Honduras.....	\$4,432		\$4,432
Panama.....		\$122,752	122,752
Total.....	4,432	122,752	127,184

TOTAL GULF PORTS.

Grand total.....	\$5,322,762	\$6,813,658	\$12,136,420
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There was no commerce between Galveston, Tex., and Central America until the beginning of this year, but the figures for four months from January to April, 1911, inclusive, show imports from Honduras of \$111,515, and exports of \$7,930.

The principal articles which the United States imports from Central America are bananas, coffee, crude rubber, hides and skins, and cabinet woods. Bananas are the most important item, the yearly importation being close to \$6,000,000. The yearly importation of coffee is about \$3,000,000; of crude rubber, \$1,000,000; of hides and skins, \$600,000; and of cabinet woods, \$350,000. The following table, prepared from statistics of the United States for the fiscal year 1909-10, shows the value of the chief articles entering into the trade with each country:

Countries.	Articles.	Value.
Imports from—		
Costa Rica.....	Bananas.....	\$3,031,556
	Coffee.....	363,282
	Hides and skins.....	106,612
	Crude rubber.....	101,384
Guatemala.....	Coffee.....	1,430,999
	Bananas.....	192,363
	Crude rubber.....	78,878
Honduras.....	Bananas.....	1,524,843
	Cocoanuts.....	120,451
	Crude rubber.....	117,808
	Cabinet woods.....	86,749
Nicaragua.....	Crude rubber.....	418,096
	Hides and skins.....	247,890
	Bananas.....	222,853
	Cabinet wood.....	188,258
	Coffee.....	116,304
Panama.....	Bananas.....	918,331
	Crude rubber.....	279,455
	Vegetable ivory.....	175,458
	Hides and skins.....	110,392
Salvador.....	Coffee.....	1,100,040
	Indigo, dyes, etc.....	37,720
	Hides and skins.....	19,634
	Crude rubber.....	13,909
Exports to—		
Costa Rica.....	Flour.....	336,134
	Machinery.....	281,273
	Other iron and steel manufactures.....	545,036
	Cotton goods.....	239,318
	Lard.....	161,307
	Lumber.....	139,653
Guatemala.....	Flour.....	365,282
	Cotton goods.....	258,928
	Vehicles.....	123,039
	Machinery.....	118,592
	Other iron and steel manufactures.....	303,350
Honduras.....	Cotton goods.....	359,230
	Flour.....	152,710
	Dairy products.....	89,049
	Chemicals, medicines, etc.....	86,920
	Machinery.....	83,901
	Other iron and steel manufactures.....	186,513
Nicaragua.....	Flour.....	295,101
	Cotton goods.....	228,611
	Machinery.....	105,129
	Other iron and steel manufactures.....	109,260
	Leather manufactures.....	102,832
	Oils.....	103,946
Panama.....	Meat and dairy products.....	1,735,689
	Machinery.....	1,549,022
	Other iron and steel manufactures.....	3,625,927
	Lumber.....	1,394,702
	Bituminous coal.....	1,380,464
	Explosives.....	1,126,132
Salvador.....	Flour.....	284,429
	Cotton goods.....	200,683
	Machinery.....	151,616
	Other iron and steel manufactures.....	173,493

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